



Saint Raphael Healthcare System

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**TESTIMONY OF
CHRISTOPHER M. O'CONNOR
PRESIDENT AND CHIEF EXECUTIVE OFFICER
HOSPITAL OF SAINT RAPHAEL**

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**BEFORE THE
APPROPRIATIONS COMMITTEE
Thursday, March 11, 2010**

**RE: GOVERNOR M. JODI RELL'S MARCH 1, 2010 DEFICIT MITIGATION
PLAN FOR FISCAL YEAR 2010**

My name is Christopher O'Connor, and I am the president and CEO of the Hospital of Saint Raphael. I am testifying today to express my concerns about Governor Rell's March 1, 2010 Deficit Mitigation Plan for Fiscal Year 2010.

Like the State, the Hospital of Saint Raphael knows very well how difficult it is to reduce budgets, raise revenues and continue to provide services to its constituents. While we appreciate the difficult task facing Governor Rell and the legislature, we strongly oppose the payment reductions to hospitals and the proposed tax on hospital revenues that was included in the deficit mitigation plan. Significant underfunding by governmental payers, which represent 70% of Saint Raphael's patients, has already put the Hospital in a precarious financial position. These proposals would be devastating—impacting care and jobs for Connecticut residents and your constituents.

Background on Saint Raphael's

- Saint Raphael's is very busy. In fact, our volume is above budgeted levels and there are many days where patients are held in the Emergency Department due to lack of beds.
- We are a safety net provider and do not turn anyone away. As noted above, 70% of our patients are covered by governmental payers that do not cover the cost of care: 55% by Medicare, 15% by Medicaid and SAGA. Currently, Medicare pays Saint Raphael's 87% of our cost (for an annual shortfall of \$27 million); Medicaid pays us 75% of our cost (\$10 million shortfall), and SAGA pays 33% of our cost (\$8 million shortfall). The \$4.9 million from the uncompensated and urban pools and cost-shifting to private insurers help to a degree, but are far from making up the shortfall. In addition, commercial insurers are increasingly getting pushback from employers.
- As a result, the Hospital is in its fifth consecutive year of losses, currently has only 16 days of cash, is in violation of its bond covenants. This is despite reducing costs, improving revenues, and improving efficiencies.

Proposed Hospital Tax

The deficit mitigation plan includes a tax on hospital revenues. As I understand it, the tax may be imposed at a rate of 3.25% and would generate about \$130 million annually. If applied like a similar tax years ago, it would be imposed on non-governmental payers. While I understand this proposal would attract federal matching funds to help balance the state's budget, we have serious concerns about the proposed tax:

1. While the intent may be for hospitals to cost shift the tax to commercial payers, the reality is that contracts are in place with established rates. Thus the tax, until and if the contracts could be renegotiated, would default to hospitals.
2. With our noted days cash and bond covenant status, Saint Raphael's would find it extremely difficult, if not impossible, to send a \$1.25 million check to the State each quarter. Even if some or all of the tax is disbursed back to us at a later date, we do not have the cash or the ability to borrow funds to make this type of quarterly payment.
3. As I understand it, the \$130 million would be returned in the aggregate, some hospitals would get less than they put in, and other hospitals would get more than they put in. In the past, the hospital tax was imposed on non-governmental payers. Since 70% of Saint Raphael's patients are covered by governmental programs, and a portion of the remaining 30% of our privately-insured patients include federal ERISA or Taft-Hartley plans, we will most likely receive less money back from the State than we pay in. There would be limited ability, if any, to recoup the hospital tax.

In 2000, the legislature repealed the hospital earnings tax, followed by the repeal of the sales and use tax. This was done for good reasons. Besides the complexity of implementing such taxes upon "non-governmental patients," I believe the legislature understood the challenges faced by Connecticut's hospitals, especially those that serve a disproportionate number of Medicare and Medicaid patients. Although the State is facing a large budget deficit, I am sure you understand, as you and your colleagues did a decade ago, the challenges that Connecticut's hospitals continue to face.

Proposed Reductions to Medicaid and the Urban DSH Hospital Pool and Delay of SAGA Increases:

The proposed 5% cut to Medicaid rates, 10% cut to the Urban DSH pool, imposition of co-payments and other Medicaid changes, would result in a reduction to our reimbursement totaling approximately \$2.9 million/annually. In addition, the SAGA rate increase that has not been implemented and the associated Medicare DSH payment that has not been received due to the State's inaction to file the SAGA waiver has negatively impacted our reimbursement this year by \$8.1 million. The combined negative impact of these proposed cuts and the delay of the SAGA increase on the Hospital of Saint Raphael is \$11 million/annually.

Appropriations Committee Members, We Need Your Help

The Hospital of Saint Raphael cannot afford to serve as the safety net for the state and federal government and should not be financially penalized for taking care of this state's governmentally-insured patients. The math simply does not work:

Current

- State payment shortfalls \$18 million/yr
- Federal payment shortfalls \$27 million/yr

Proposed

- Proposed tax \$ 5 million/yr
- Other Medicaid & Urban DSH pool reductions \$ 2.9 million/yr
- Delay of SAGA increases \$8.1 million/yr

The Hospital of Saint Raphael cannot absorb the proposed Medicaid cuts and SAGA delays totaling \$11 million annually. We also do not have the funds or the capacity to borrow \$1.25 million each quarter to pay a hospital tax.

We cannot serve more people, particularly increasing un- and under-insured populations, with shortfalls and cuts of this magnitude. Although we appreciate the two pools that help hospitals like ours, the \$4.9 million does not go far. Years of shortfalls have exacerbated the problem and have left us in a dangerous financial position.

These cuts translate into healthcare and jobs for this state's residents and your constituents. Our workforce of 4,110 employees provides high-quality, compassionate care to thousands of patients each year, 24 hours per day/seven days per week and provides a healthcare safety net. We need your help.

We urge you to reject the proposed Medicaid cuts and the hospital tax, and immediately implement the SAGA rate increase that was approved in your budget last September.
Thank you.